

Message Text

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ORIGIN EB-08

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COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
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DRAFTED BY STATE:EB/IFD/ODF:R.JONES
APPROVED BY ARA/ECP:SHROGERS
TREAS:I/IDN:F.MARESCA
TREAS:D:R.CARSWELL
TREAS:SE:PSBRIDGES
ARA/CAR: RSURBER

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TO AMEMBASSY KINGSTON PRIORITY

C O N F I D E N T I A L STATE 107679

E.O. 11652: GDS

TAGS: EFIN, EAID, JM

SUBJECT: BILATERAL WITH JAMAICA AT THE IDB MEETING

1. SUMMARY: DEPUTY SECRETARY OF THE TREASURY CARSWELL MET ON APRIL 18 WITH SENATOR FLETCHER AND OTHER MEMBERS OF THE JAMAICAN DELEGATION AT THE ANNUAL MEETING OF THE INTER-AMERICAN DEVELOPMENT BANK IN VANCOUVER. MR. CARSWELL CALLED THE MEETING TO EXPLAIN WHY THE U.S. WOULD ALMOST CERTAINLY NOT BE ABLE TO PROVIDE THE ESF BRIDGE FINANCING REQUESTED EARLIER BY THE JAMAICAN AMBASSADOR IN WASHINGTON. MR. FLETCHER ACCEPTED THE EXPLANATION BUT MADE A PLEA FOR UNDERSTANDING OF THE JAMAICAN SITUATION AND THEIR DIFFICULTIES IN REACHING AN AGREEMENT WITH THE IMF TEAM.

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2. MR. CARSWELL OPENED THE MEETING BY EXPLAINING THAT ALTHOUGH ESF FUNDS HAD OCCASIONALLY BEEN USED IN THE PAST FOR SHORT-TERM FINANCIAL SUPPORT UNDER RIGOROUS CONDITIONS, THEY WOULD ALMOST CERTAINLY NOT BE MADE AVAILABLE TO JAMAICA AT THIS TIME. EXPLAINED THAT THE ESF HAS BEEN USED EXTENSIVELY LATELY IN EFFORTS TO STABILIZE THE DOLLAR AND THE U.S. WILL HAVE TO PRESERVE THE FUND FOR FUTURE DOLLAR

STABILIZATION. HE CONTINUED THAT IT WAS NOT THAT THE AMOUNT REQUESTED BY JAMAICA WAS EXCESSIVE BUT THAT THE ADMINISTRATION FELT IT WAS NECESSARY TO AVOID THE PERCEPTION BY THE

U.S. CONGRESS THAT THE FUND WAS BEING USED TO STABILIZE OTHER CURRENCIES WHILE THE DOLLAR ITSELF MIGHT NEED TO BE HELPED. THIS HAD NOTHING TO DO WITH JAMAICA AND THERE WAS NOTHING THAT THEY COULD DO TO CONTROL THIS RESULT. HE STRESSED THAT THE PROBABLE REFUSAL OF ESF BRIDGE FINANCING DID NOT NECESSARILY MEAN THERE WAS NOTHING THAT THE U.S. COULD OR WOULD DO FOR JAMAICA, AND HE INVITED MR. FLETCHER TO DESCRIBE THE SITUATION IN JAMAICA SO THAT THE U.S. COULD BETTER JUDGE WHAT SUPPORT WE MIGHT PROVIDE.

3. MR. FLETCHER EXPLAINED THAT JAMAICAN'S SITUATION WAS THE RESULT OF A COMBINATION OF THE RISE IN OIL PRICES AND A REDUCTION IN FOREIGN INVESTMENT. ALTHOUGH JAMAICA HAD RESPONDED BY INSTITUTING A BAUXITE LEVY , THEY HAD UNDERESTIMATED THE EFFECTS OF INCREASES IN THEIR IMPORT PRICES. THIS LEAD TO THE EXPANSION OF CURRENT ACCOUNT DEFICITS BETWEEN 1974 AND 1976, WHICH THEY HAD BEEN ABLE TO FINANCE BUT AT THE COST OF EXHAUSTING THEIR ABILITY TO ATTRACT MORE FUNDS. IN ORDER TO AVOID COMPLETE BANKRUPTCY THEY WERE FORCED TO REDUCE THEIR DEFICIT IN 1977 TO FIFTY MILLION DOLLARS. THIS WAS TOO SMALL HOWEVER AS IT LEFT NO ROOM FOR THE IMPORTS NECESSARY FOR CAPITAL GROWTH. THEY FELT A MORE CONFIDENTIAL

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APPROPRIATE SIZE FOR THE DEFICIT WOULD BE ONE HUNDRED MILLION TO ONE HUNDRED FIFTY MILLION DOLLARS. THEIR PROBLEM WAS NOW HOW TO FIND THE FIFTY TO ONE HUNDRED MILLION DOLLARS IN ADDITIONAL FUNDS TO FINANCE THIS INCREASED DEFICIT. AN AGREEMENT WITH THE IMF WOULD PROVIDE SIXTY TO SEVENTY MILLION DOLLARS AND THE REST OF THE NEEDED FUNDS WOULD PROBABLY FOLLOW THEREAFTER.

4. THE AGREEMENT WITH THE IMF WAS PROVING DIFFICULT TO REACH. THERE WAS ONE ISSUE LEFT WHICH HAD CAUSED A STALEMATE. BOTH SIDES AGREED JAMAICA WOULD HAVE TO REDUCE REAL WAGES BY ABOUT 25 PERCENT DURING THE COMING YEARS. THEY ALSO AGREED THE FIRST 10 TO 15 PERCENT SHOULD COME WITHIN THE FIRST TWO MONTHS OF THE PROGRAM AND THE REMAINING DROP SHOULD OCCUR GRADUALLY OVER THE YEARS BY ADOPTING A CRAWLING PEG DEVALUATION. THE SOURCE OF CONFLICT WAS HOW TO MANAGE THE FIRST 10 TO 15 PERCENT CUT IN REAL WAGES. THE IMF WANTS TO DO THIS WITH AN IMMEDIATE DEVALUATION, WHEREAS JAMAICA PROPOSES TO INSTITUTE AN IMPORT SURCHARGE. THE JAMAICANS BELIEVE THAT A DEVALUATION WOULD NOT BE EFFECTIVE SINCE THEIR EXPORTS ARE LAGGING BECAUSE OF THEIR LACK OF CAPITAL PLANT AND NOT HIGH PRICES. THEY ALSO FEEL THAT IT

WOULD BE POLITICALLY IMPOSSIBLE TO SELL A LARGE DEVALUATION TO THE JAMAICAN PUBLIC.

5. LETCHER WISHED IT WAS POSSIBLE TO GET A FRESH START WITH IMF, AND THAT THEY HAD KNOWN THAT IT WOULD NOT BE EFFECTIVE TO TRY TO CIRCUMVENT FINCH. FLETCHER ADMITTED THEY HAD NO CHOICE BUT TO REACH AN AGREEMENT WITH THE IMF, BUT THEY FEARED THAT VIOLENT UPHEAVALS MIGHT RESULT. JAMAICA DID NOT WANT TO GO THE ROUTE OF SOME LATIN AMERICAN COUNTRIES AS PRIME MINISTER MANLEY WAS FUNDAMENTALLY OPPOSED TO TOTALITARIAN MEASURES. FLETCHER PREDICTED AGREEMENT WITH THE FUND BY FRIDAY APRIL 21 OR SHORTLY THEREAFTER.

6. IN SUBSEQUENT DISCUSSION WITH DEPUTY SECRETARY CARSWELL
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FLETCHER AGREED THAT IT WOULD NOT BE DESIRABLE OR EFFECTIVE TO PRESSURE THE IMF TEAM SINCE HE KNEW THEY WERE WELL INTENTIONED AND COMPETENT. HE ALSO AGREED THAT THERE DID NOT APPEAR TO BE MUCH THE U.S. COULD DO FOR JAMAICA IN THE SHORT TERM. FOR THE MEDIUM TERM, HE HOPED THAT THE U.S. COULD PROVIDE SOME SORT OF RAW MATERIAL CREDIT SO THAT JAMAICAN EXPORTERS COULD PURCHASE THE RAW MATERIALS NECESSARY FOR THEIR PRODUCTION. TO SUM UP, DEPUTY SECRETARY CARSWELL EXPLAINED THAT THE U.S. WOULD NOT BE ABLE TO THINK IN TERMS OF AN ESF PROGRAM, BUT THERE MIGHT BE POSSIBILITIES FOR INCREASES IN FOOD ASSISTANCE OR EXIM-BANK PROGRAMS. VANCE

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